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US, EU Agree to Ease Trade Tensions

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United States (US) and the European Union (EU) agreed on a plan to defuse the festering trade dispute between the two major economies. The agreement is considered as a breakthrough that could avoid a trade war.

Key Highlights

- As per the agreement the US will not follow through with a threat to impose tariffs on automobiles that would hurt the dominant car industry in the EU.
- US and EU will work to “resolve” the existing duties on steel and aluminum imposed by US, which had angered many countries within the EU.
- Work towards eliminating all tariffs, trade barriers and subsidies related to non-auto industrial goods.
- Reform the World Trade Organization and reduce trading costs and regulatory barriers across the Atlantic.
- Agreed to suspend any new tariffs while the negotiations were going on.
- EU has also agreed to start buying more US soybeans, one of the main commodities targeted by China in its response to US tariffs. The bloc also would become a massive buyer of US liquefied natural gas.

Background

- The U.S. and EU account for about \$1 trillion in transatlantic trade, and tensions have spiked due to trade disparities.
- On March 9, 2018 the United States imposed a 25% duty on steel and 10% on aluminum imports for an unspecified period.
- The objective of imposing heavy tariffs on imported steel and aluminum is to boost the US industry that has been suffering from “unfair” trade business practices.
- Unlike the punitive tariffs that the United States imposes on ‘dumped’ or unfairly subsidized goods from specified countries, these steel and aluminum tariffs would apply to all countries unless countries are eligible to request for an exemption.

- The imposition of tariffs has been classified as ‘safeguard’ tariffs aimed to stop a sudden, unforeseen and damaging import surge that could seriously damage a particular industry and are legal under World Trade Organization (WTO) rules.
- In justifying the measure, the US administration invoked a national security law – wherein countries are allowed this kind of recourse under the General Agreement on Tariffs and Trade (GATT) in times of war and other emergencies.

Impact of new tariffs

- The European Union is the top trading partner of the United States in goods, and it is the top U.S. export market. The EU has responded by warning that it will retaliate with tariffs on a range of US imports.
- It could once again revive protectionist sentiment which has been on the wane following the recovery from the global economic meltdown.
- As a result, the US’s traditional allies, who will be hit the most from the tariffs, have warned of bilateral retaliation on a range of US imports including agriculture and technology.

Implications for the United States

- American steel and aluminum manufacturers would certainly get a boost, but it's not clear if they actually have the capacity to meet a huge surge in demand.
- Other sectors of American manufacturing would be hurt by rising steel and aluminum prices for automakers and other industries that use steel and aluminum in their production.
- With increasing manufacturing cost, the companies that make these products could pass the increased cost of raw materials to their consumers.

Implications for India

- India is a minor exporter of the two metals and with the market for steel consumption in India growing, the imposition of US tariffs would not have significant impact.
- However, the United States has been critical of India’s intellectual property rights standard and its high tariffs on certain products (Harley Davidson motorbikes) and has threatened to impose reciprocal tariffs on Indian goods (India ranks ninth on the list of trading partners that run a trade surplus with the US – it exports more to the US than what it imports).